MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

DEC5124 – MACROECONOMICS

(All sections / Groups)

10 JULY 2023
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **SIX (6)** pages with **TWO (2)** sections only.
   Section A - **THIRTY (30)** Multiple-Choice Questions
   Section B - **TWO (2)** Structured Questions

2. Attempt **ALL** questions in both Section A and B. The distribution of the marks for each question is given.

3. Answer Section A in the MCQ answer sheet provided and Section B in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (60 MARKS)

1. The spending and taxing policies used by the government to influence the economy refer to
   A. monetary policy.
   B. trade policy.
   C. investment policy.
   D. fiscal policy.

2. The effect of expansionary fiscal policy is a(n):
   A. increase in interest rate.
   B. decrease in interest rate.
   C. increase in price level.
   D. None of the above

3. Which of the following is the most appropriate policy for severe recession?
   A. Decrease in government spending.
   B. Decrease in taxes.
   C. Decrease in money supply.
   D. Decrease in investment.

4. The government budget deficit or surplus is the difference between what a government _____ and what it _____ in a year.
   A. spends; collects in taxes
   B. spends on programs; gives away in foreign aid
   C. earns from transfers; pays in transfers
   D. pays for imports; spends on exports

5. The budget deficit tends to decrease when
   A. GDP increases.
   B. GDP decreases.
   C. GDP remains unchanged.
   D. None of the above

6. When the government sector is included in the income-expenditure model, the equation for aggregate income is
   A. $Y = C + I$
   B. $Y = C + I + G$
   C. $Y = C + S - T$
   D. $Y = C + S + I$

Continued...

7. The aggregate consumption function is C = 100 + 0.5Yd. If income is RM 2000 and net taxes are RM200, consumption equals
   A. 100.
   B. 900.
   C. 1000.
   D. 1100.

8. If aggregate expenditure (AE) is greater than income (Y), aggregate output will
   A. increase.
   B. decrease.
   C. remain the same.
   D. More information needed.

9. If the marginal propensity to consume (MPC) is 0.6, the government spending multiplier is
   A. 1
   B. 1.5
   C. 2
   D. 2.5

10. If the tax multiplier is -9 and taxes are reduced by RM100 billion, output
    A. falls by RM100 billion.
    B. falls by RM900 billion.
    C. increases by RM900 billion.
    D. increases by RM100 billion.

11. Which of the following factors causes the barter system to be inefficient?
    A. it requires high liquidity.
    B. its cost of transaction is too low.
    C. it requires a double coincidence of wants.
    D. the cost associated with information search is too low.

12. Jun Ru lists the price of blueberry cheese cake at RM7 per slice. Listing the price on the menu is an example of money serving as a(n)
    A. store of value.
    B. unit of account.
    C. medium of exchange.
    D. investment good.

13. To ensure that paper money will be accepted, the government implicitly promises the public that
    A. it will not print money so fast that it loses its value.
    B. it will always remain the strongest currency of all industrialised nations.
    C. it will not change the rate at which the currency is exchanged for other currencies.
    D. the monetary system will always be backed by a precious metal.

Continued...

14. Paper money is included in
    A. M1 only.
    B. M2 only.
    C. M1 and M2 only.
    D. M1, M2 and M3.

15. Oliver transfers RM2,000 from his wallet to his savings account. This transaction will
    A. not change M1 and decrease M2.
    B. decrease M1 and not change M2.
    C. increase both M1 and M2.
    D. decrease both M1 and M2.

16. A loan made by a bank is considered ___ of the bank.
    A. an asset
    B. net worth
    C. capital
    D. a liability

17. The required reserve ratio is 5 percent. The money multiplier is
    A. 0.5
    B. 2
    C. 5
    D. 20

18. Money creation increases as commercial banks' excess reserves
    A. increases.
    B. decreases.
    C. remains the same.
    D. could either increase or decrease.

19. If interest rates increase to a very high level, people will most likely hold
    A. more money in savings accounts and less cash.
    B. less money in savings accounts and less cash.
    C. less money in savings accounts and more cash.
    D. more money in savings accounts and more cash.

20. The price of bonds and the interest rate are
    A. positively related.
    B. negatively related.
    C. not related.
    D. need more information.

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21. The quantity of output supplied at different price levels is represented by the
A. money supply curve.
B. aggregate demand curve.
C. aggregate supply curve.
D. aggregate expenditure curve.

22. When the aggregate supply curve is vertical, which of the following is **not** true?
A. The economy is at capacity.
B. The economy is expanding quickly.
C. The economy is producing the maximum sustainable level of output.
D. Any increase in the price level will not cause an increase in aggregate output.

23. An increase in aggregate demand when the economy is operating at high levels of output is likely to result in
A. a large increase in both output and the overall price level.
B. an increase in the overall price level but small or no increase in output.
C. an increase in output but small or no increase in the overall price level.
D. small or no increase in either output or the overall price level.

24. All of the following shift the short-run aggregate supply curve except
A. change in the price level.
B. change in the price of oil.
C. change in the price of raw material.
D. change in wages as a result of a labour strike.

25. The quantity of aggregate output demanded will fall if
A. aggregate supply increases.
B. net taxes are reduced.
C. the price level increases.
D. the amount of investment increases.

26. Which of the following sequence of events follows an increase in money supply by the central bank?
A. $r \uparrow \rightarrow I \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$
B. $r \uparrow \rightarrow I \uparrow \rightarrow AE \downarrow \rightarrow Y \uparrow$
C. $r \downarrow \rightarrow I \downarrow \rightarrow AE \downarrow \rightarrow Y \downarrow$
D. $r \downarrow \rightarrow I \uparrow \rightarrow AE \uparrow \rightarrow Y \uparrow$

27. To decrease the price level the government could adopt policies that
A. increase aggregate supply and aggregate demand.
B. decrease aggregate supply and aggregate demand.
C. increase aggregate supply and decrease aggregate demand.
D. decrease aggregate supply and increase aggregate demand.

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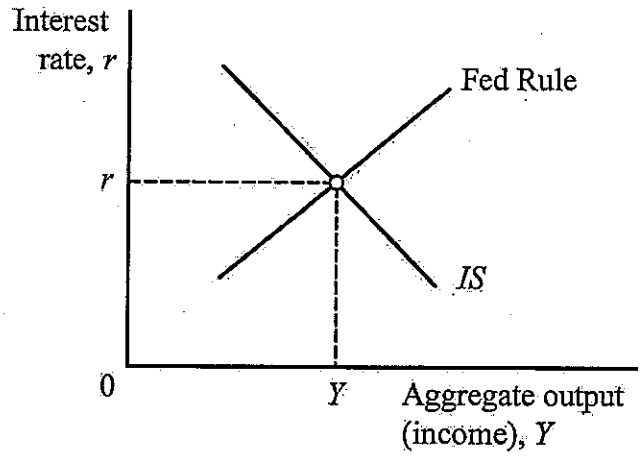
Figure 1



28. Refer to Figure 1. An increase in government spending shifts the
    A. IS curve to the left.
    B. IS curve to the right.
    C. Fed rule to the right.
    D. Fed rule to the left.

29. When the general price level falls
    A. consumption rises as a result of the real wealth effect.
    B. consumption decreases as a result of the multiplier effect.
    C. investment rises as a result of the real wealth effect.
    D. investment falls as a result of the multiplier effect.

30. The long-run aggregate supply curve is vertical if
    A. wages and other costs fully adjust to changes in prices in the long-run.
    B. the government follows optimal fiscal policy.
    C. technology is fixed.
    D. the central bank follows optimal monetary policy.

SECTION B: STRUCTURED QUESTIONS (40 MARKS)

Question 1

(a) The following table shows the assets and liabilities of Bank X with 25 percent reserve ratio.

Assets		**Liabilities**	
Reserves	RM____	Deposits	RM 10000
Loans	RM____		
Total	RM10000	Total	RM10000

Continued...

(i) If there is no excess reserve, compute the amount of reserves and loans by showing all your calculations.

(4 marks)

(ii) Compute the total amount of money supply created by the initial deposit. Show all your calculations.

(3 marks)

(iii) If Bank X keeps RM2000 as excess reserve, compute the amount of actual reserves and new loans. Show all your calculations.

(3 marks)

(b) Apply the concept of monetary policy and fiscal policy to overcome an increase in unemployment rate.

(10 marks)

(Total: 20 marks)

Question 2

Suppose an economy is in **long-run equilibrium**.

(i) Draw the AD-AS diagram to illustrate the equilibrium price level and aggregate output.

(5 marks)

(ii) If central bank decreases the money supply, what are the changes to the values of equilibrium price level and aggregate output in the short-run? Show the changes to the values of equilibrium price level and aggregate output on the AD-AS diagram that you have drawn in part (i).

(8 marks)

(iii) Based on the short-run changes in the equilibrium aggregate output in part (ii), will the economy return to the potential output (maximum output) in the long-run? Show the changes on the diagram that you have drawn in part (i) and (ii).

(7 marks)

(Total: 20 marks)

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